

**FISCAL YEAR 2013 BUDGET AND FINANCIAL PLAN HEARING  
FOR THE DEPARTMENT OF INSURANCE, SECURITIES AND BANKING**

**TESTIMONY OF  
WILLIAM P. WHITE  
COMMISSIONER  
OF THE  
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING  
BEFORE  
THE COUNCIL OF THE DISTRICT OF COLUMBIA  
COMMITTEE ON PUBLIC SERVICES AND CONSUMER AFFAIRS**



**April 24, 2012  
1350 PENNSYLVANIA AVENUE, N.W.  
ROOM 420  
WASHINGTON, D.C. 20004**

Good Afternoon Chairperson Alexander, Members of the Committee, and Committee Staff. I am William P. White, Commissioner for the Department of Insurance, Securities and Banking (“DISB” or “Department”). I am pleased to be here today to testify regarding DISB’s FY 2013 Budget Request which is focused on our mission to provide consumer protection and fair and efficient supervision of financial service activities for the residents and businesses of the District of Columbia.

## **OVERVIEW**

DISB was established in 2004 by reform legislation which merged the Department of Banking and Financial Institutions and the Department of Insurance and Securities Regulation into a unified agency. The Department regulates insurance, securities, banking, and other financial services companies doing business in the District of Columbia. The Department’s present organizational structure includes four (4) operating bureaus: Insurance Bureau, Securities Bureau,

Banking Bureau, Risk Finance Bureau, and three (3) compliance divisions: Market Examinations, Compliance Analysis, and Enforcement and Consumer Protection.

The Department's FY 2013 budget is comprised of \$17,868,052 in Special Purpose Revenue funds, \$2,544,319 in Federal Grant funds, and \$447,652 in Private Grant funds. The proposed FY 2013 budget supports 125.6 FTE positions. On its face, the Department's proposed FY 2013 gross budget of \$20,860,023 represents an increase of \$3,817,705 or 22.4 percent over our FY 2012 approved gross budget of \$17,042,318. Of this increase, please note that \$2.5 million is attributed to the receipt of Federal Grants funds to support federal mandates of the Department. However, when we eliminate these federal funds and compare our FY 2013 "O" type budget request of \$17,868,052 to our approved FY 2012 "O" type budget of \$17,042,318, the increase request is \$826,000 or 4.8%, which is consistent with our historic budget increases.

During my testimony last year, I mentioned one of our greatest challenges would be the continued implementation of the federal health care reform under the Patient Protection and Affordable Care Act (“PPACA”), and the development of statutory and regulatory changes to address requirements of federal financial reform under The Dodd–Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”). Both federal initiatives have broad implications for consumers in terms of access to services and the protections afforded by the legislation.

While these federal laws do not change the Department’s role or responsibilities, the increase in regulatory requirements and performance expectations is significant.

I am pleased to report that through the receipt of federal grants and private funding, the Department will be able to meet most if not all of these challenges. The Department’s budget includes approximately \$2.5 million of federal funds which, among other things, will be used to

support 8 additional FTEs; and private grant funding of approximately \$448,000 will be used to support 3 new FTEs. These 11 additional grant funded FTEs will position DISB to continue its work towards playing a leading role in implementing the provisions of PPACA and Dodd-Frank. The Department through them will be able to engage in enhanced outreach programs to our residents, and increased surveillance and compliance to protect against fraud and abuse.

I now turn your attention to the changes on the non-personal services (NPS) side of the budget that I would like to highlight. The Department continues to seek ways and methods to keep costs in check. A not insignificant portion of the Department's budget supports the processing and issuing of licenses to insurance producers, investment advisors, broker-dealers, mortgage brokers and lenders, and also the processing of various regulatory filings. The Department continues to evaluate its operations and systems on an ongoing basis and strives to develop and adopt best practices for managing the large

volume of paper received in connection with licensing and other regulatory filings. Through various enhancements, the Department has migrated an increasing number of paper based submissions to an electronic submission process. These initiatives will result in projected FY 2013 savings of about \$84,000 due to reduction in postage and printing needs. In addition, the Department projects it will reduce the need to purchase computers and equipment for further savings of \$198,000.

On the flip side, the FY 2013 budget reflects significant increases associated with the Department fulfilling various federal mandates. Fortunately, these mandates are supported by federal funding. For FY 2013, DISB has been awarded Federal Grant funding for the State Small Business Credit Initiative (SSBCI), a program launched by the U.S. Treasury Department last summer, and Federal Grants for Health Insurance Rate Review (HIRR).

The Department has allocated \$1,000,000 of SSBCI funds to the Banking program for use to support small business lending in the District, and has budgeted about \$200,000 to cover an FTE and supplies, equipment, and other services related to supporting the SSBCI program. Funds from the Health Insurance Rate Review grant will be used to continue the Department's work with the Mayor's Health Care Reform Implementation Committee (HRIC) to implement the provisions of PPACA, including the creation of a District Health Care Exchange. These funds, which will be managed within the Department's Insurance Bureau, include \$827,164 for funding 7 FTEs, and about \$500,000 for supplies, equipment, and other services related to supporting the Health Insurance Rate Review program.

Now, I will provide an overview of how the Department is funded. I have already mentioned that \$3 million of the FY 2013 budget will be funded by federal and private grant funding. The remainder, \$17.8 million, is funded by Special Purpose Revenue "O" type funds

generated through insurance assessments, premium taxes, licensing, registration, filing and other fees which are collected from the entities we regulate. Each of the Department's bureaus receives funding as follows:

- The **Insurance Bureau's** budget is funded through an assessment on insurers and Health Maintenance Organization's doing business in the District of Columbia. Authority for this assessment comes under the Insurance Regulatory Trust Fund Act of 1993, and is administered through the Insurance Regulatory Trust Fund.
- The budget for the **Securities Bureau** is funded by registration fees collected from the sale of securities, fines, and license fees collected from securities broker and dealers, and investment advisers operating in the District.
- The **Banking Bureau** budget is funded through fees generated from District based chartered banks, licensing other financial



institutions that provide banking services, an assessment fee charged to mortgage lenders and brokers operating in the District, and fines.

- The **Risk Finance Bureau** is funded through premium taxes and fees charged to captive insurance companies and risk retention groups.

As with the Securities Bureau and Banking Bureau, the balance of these taxes and fees is transferred to the General Fund at the end of each fiscal year.

While the Insurance Regulatory Trust Fund Act specifies the assessment rate, and the management and use of funds for the Insurance Bureau, the funding provisions for the other bureaus make market activity the principal determinant of Department funding. Consequently, we must maintain regulatory capabilities that provide consumers with protection and make the District an attractive place to do business. To accomplish this dual mission, our resources will be focused on meeting the challenges of a rapidly changing financial services market through increased supervision of the entities we

regulate, and more effective outreach and education of consumers. At the same time, we will pursue initiatives that encourage businesses to invest in the District with products and services that benefit our residents. These objectives are not incompatible, and in many ways reflect the demands of both consumers and the businesses that provide financial products and services.

## **MARKET CHALLENGES & REGULATORY RESPONSE**

During the last few years, the difficulties in the financial markets have highlighted the need for better information for consumers making financial decisions, and greater clarity and consistency by regulators in supervising financial service providers. A healthy marketplace balances competition with fairness for all participants, and regulators play a key role in creating and maintaining that balance. One of the most important aspects of this responsibility is identifying and taking action against inappropriate market activities in a timely manner. This is a

primary objective of good regulation and DISB has re-aligned its resources to achieve this goal.

Healthcare reform and Dodd-Frank present both challenge and opportunity for DISB. We believe that our FY 2013 budget request provides the Department with the resources necessary to meet both District and federally mandated responsibilities. In my opinion, this budget request places the Department in the position to strengthen oversight and investigative capabilities through an integrated market information gathering approach.

We have recently completed the first phase of our planned re-alignment to improve the flow of information within the Department, and we will continue to assess personnel and technology needs in each industry sector to ensure that we have the necessary staffing and other resources to effectively implement existing, as well as new, statutory mandates. For example, our ongoing PPACA implementation efforts are being coordinated with the Department of

Healthcare Finance (DHCF), the Department of Health, the Department of Human Services, and the Office of the Deputy Mayor for Health and Human Services. Our collective efforts have included recommendations that were adopted into the Health Benefit Exchange Authority Establishment Act of 2011 – the law enacted to create the District’s Health Care Exchange. We expect to implement the objectives of financial services reform and encourage economic development through similar cooperative efforts with other agencies, the community, and representatives from the industry sectors we regulate.

## **REGULATORY COMMITMENTS**

Over the next year, the Department will continue to focus on our priorities: (1) to provide fair and efficient supervision of financial service activities for the protection of the residents of the District of Columbia, and (2) to create conditions that will attract and retain national and international insurance, securities, banking, and other

financial service businesses to the District of Columbia. We strive for continuous improvement of our consumer service efforts, and we will do more to foster an environment of efficiency and fairness for consumers and businesses that conduct business in the District of Columbia. In addition to our overall efforts in healthcare and financial services reform, we have moved ahead with initiatives to implement foreclosure mediation, and to provide access to federal funds for small business capital, and increase anti-fraud enforcement.

Perhaps our most important commitment is monitoring the financial solvency of insurance companies and other financial institutions that operate in the District. We license insurance companies, District chartered banks and other financial service companies operating in the District. We track financial solvency to assure that the financial institutions are fiscally sound, stable, and able to provide the services consumers expect. The Department also reviews thousands of rate requests filed by commercial insurance, life

insurance as well as health insurance companies to ensure that the rates meet all mandated actuarial and financial requirements. In addition, we review company forms including policies and other contractual agreements to ensure compliance with insurance and financial services statutes, and review new products to ensure compliance with the District of Columbia Code.

We license agents and ensure that they meet the continuing education requirements, and investigate all allegations of wrongdoing. We have the authority to conduct investigations of financial service providers in the marketplace to assess complaints, or investigate allegations of wrongdoing. Our investigations can and do lead to suspension or revocation of licenses or authority to operate in the District of Columbia, and in some cases, criminal prosecutions. We have had success in the past and will continue monitoring and enforcement activities particularly in light of the new healthcare

provisions and the array of new financial products being made available in the market.

## **CONCLUSION**

In conclusion, DISB is prepared to meet the challenges of change in the financial market. We are encouraged by our accomplishments thus far in FY 2012, and look forward to improving our capabilities in FY 2013 to meet the needs of consumers and businesses. We believe the Department's proposed budget will enable us to continue to monitor the activities of the entities we regulate, identify problems or concerns, and take steps as necessary to assure fair and equitable treatment of market participants. The Department will continue to work with other District agencies and national industry associations in insurance, securities and banking to ensure that the District's best interests are represented as we implement federal healthcare mandates and meet the requirements of financial services reform.

We will continue to work with the Administration and the Council to look after the best interests of District residents in all of regulatory efforts.

Thank you Chairperson Alexander for providing the opportunity for me to testify on the Mayor's proposed budget. I will be glad to answer any questions you may have.